Before the
FEDERAL COMMUNICATONS COMMISSION
Washington, D.C. 20554

In the Matter of	)	
	)	
Request To Update Default Compensation Rate for Dial-Around Calls from Payphones	)))	**RM No. 10568**

COMMENTS OF GLOBAL CROSSING NORTH AMERICA, INC.

In response to the Commission's Public Notice,[1] Global Crossing North America, Inc. ("Global Crossing") submits these comments on the petitions for rulemaking filed by the American Public Communications Council ("APCC")[2] and the RBOC Coalition[3] to more than double the existing default rate for payphone compensation. Both APCC and the RBOC Coalition point to falling call volumes as a justification for saddling interexchange carriers with this proposed massive increase in the payphone compensation rate.[4] Both blame the reduction in call volumes on the increased substitution of wireless calls for payphone calls.[5]

The proposed increase in the payphone compensation rate is both economically irrational and contrary to Congress' objectives embodied in section 276 of the Telecommunications Act – to ensure the widespread deployment of payphones and to ensure that payphone service providers ("PSPs") are fairly compensated for calls made

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1 Public Notice, DA 02-2381, *Wireline Competition Bureau Seeks Comment on Petitions for Rulemaking Regarding Payphone Dial-Around Compensation*, RM No. 10568 (Sept. 30, 2002).

2 *Request that the Commission Issue a Notice of Proposed Rulemaking (or in the Alternative, Petition for Rulemaking) To Update Dial-Around Compensation Rate* (Aug. 29, 2002) ("APCC Petition").

3 *Petition for Rulemaking* (Sept. 4, 2002) ("RBOC Petition").

4 APCC Petition at 7-8; RBOC Petition at 1.

5 APCC Petition at 7; RBOC Petition at 1.

from their payphones.[6] As is demonstrated herein, both APCC and the RBOC Coalition ignore basic economics by wholly failing to take into account demand responses to the proposed increases. Were the Commission to adopt these misguided proposals, the likely result would be that total revenues from payphones – and, hence, payphone deployment levels -- would fall even farther, thus defeating the stated purposes of APCC and the RBOC Coalition. The Commission should not countenance such an outcome.

When the Commission adopted its current per-call compensation rate,[7] it utilized a fairly simplistic – but, at the time, not unreasonable – approach of dividing the costs of a marginal payphone by the average call volume from such a payphone. Both APCC and the RBOC Coalition want the Commission simply to utilize this methodology, but to update the inputs.[8] However, since the adoption of the Third Report and Order, new, but not unexpected facts, have come to light that would make blind reliance on the methodology set forth in the Third Report and Order patently unreasonable. The Commission now has three years' experience in determining what happens to payphone call volumes and payphone deployment when the average cost of a payphone call is increased dramatically. Specifically, increasing the per-call rate from effectively zero to $0.24 per call caused volumes to decrease and total revenues from payphones and, hence, payphone deployment to decrease.[9]

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6 *See* 47 U.S.C. § 276.

7 *Implementation of the Pay Telephone Reclassification and Compensation Provisions of the Telecommunications Act of 1996,* CC Dkt. 96-128, Third Report and Order, and Order on Reconsideration of the Second Report and Order, 14 FCC Rcd. 2545 (1999) ("Third Report and Order")..

8 APCC Petition at 3; RBOC Coalition Petition at 5.

9 Indeed, this phenomenon forms the basis for the requests of APCC and the RBOC Coalition.

This result should not be surprising for two reasons: (1) as the cost of a good increases, demand for the good decreases and, if demand is elastic, total revenues will also decrease in response to a price increase;[10] and (2) as the price of a good increases, other goods will be substituted for the good subject to the price increase.[11] Both factors strongly suggest that a massive increase in the default compensation rate would be counterproductive.

APCC's own data serves to validate the first result.[12] APCC agrees that payphone costs have been relatively stable -- $107.32 per month compared to $101.29 per month (excluding the coin mechanism) utilized in the Third Report and Order.[13] The basis for the relief it seeks is a "precipitous decline" in call volumes, from 439 to 234 per month.[14] Even taking the data supplied by APCC and the RBOC Coalition at face value, it provides no basis for more than doubling the per-call compensation rate.

When the Commission established the current per-call compensation rate, it found the following distribution of calls from a marginal payphone:

Type of Call	Volume	Distribution
Coin Calls	270	61.2%
Dial-Around	142	32.4%
Other	26	6.6%
Total	439	100.0%[15]

10 *See generally* W. Nicholson, *Microeconomic Theory: Basic Principles and Extensions* at 74-81, 99-101 (Dryden Press 1972) ("Nicholson").

11 Nicholson, *supra* at 81-86.

12 The data submitted by the RBOC Coalition does not differ materially from that submitted by APCC. Thus, for purposes of this discussion, the focus is on the APCC data.

13 APCC Petition at 13.

14 *Id.*

15 Third Report and Order, ¶151 & nn. 302-306. The numbers are after rounding.

The data on which APCC relies shows the following:

Type of Call	Volume	Distribution
Coin Calls	159	67.4%
Dial-Around	56	23.5%
Other	19	9.1%
Total	234	100.0%[16]

Thus, during the time that the Commission's current default compensation rate has been in effect, the only category of calls to experience an absolute decline in call volumes and a relative decline as a percentage of total calls from a marginal payphone was dial-around calls. Indeed, dial-around call volumes have decreased approximately 60% in absolute terms and close to one-third in relative terms. This result should be entirely expected, given the magnitude of the increase in the per-call compensation rate.

Similarly, coin call volumes have decreased in absolute terms, a result that may be attributed to the increase in the generally-prevailing rate for calls from $0.35 to $0.50 per call.[17]

Total revenues from payphones the Commission necessarily anticipated when it established the current default compensation rate have not materialized, as demonstrated in the following table:

Type of Call	Call Volumes	Anticipated Revenues
Coin Calls	270	$ 94.50[18]
Dial-Around	142	$ 32.80[19]
Other	26	$ 13.50[20]

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[16] APCC Petition, Att. 1 at D.5.6.

[17] RBOC Coalition Petition at 1-2.

[18] 270 calls time $0.35 per call. *See* Third Report and Order, ¶ 153.

[19] 142 calls time $0.231 per call. *See* Third Report and Order, *id.*

[20] 26 calls times $0.50 per call. *See* Third Report and Order, *id.*

In this regard, it should be noted that the per-call rate was a "plug" rate. That is, the Commission established the per-call rate essentially to fill a revenue requirement. The Commission chose the rate necessary, all else being equal, to generate total revenues from a marginal payphone equal to total costs from a marginal payphone.

Practice, however, has not borne out the Commission's expectations, as APCC's data demonstrates:

Type of Call	Call Volumes	Revenues
Coin Calls	159	$79.50[21]
Dial-Around	56	$12.94[22]
Other	19	$ 9.50[23]

Thus, of the expected $32.80 per call that the Commission's default per-call rate was expected to generate, only $12.94 was actually realized, leaving a deficit of almost $20 per phone per month. Basic economic theory suggests that the reason for this deficit is not that the Commission set the default per-call rate *too low*, but that it set the rate *too high*.

The data also strongly suggests what would happen if the Commission were to increase the default per-call rate to $0.48 or $0.49 per call. Specifically, one would expect that the volume of dial-around calls would decrease more than proportionately to the rate increase. As a result, the Commission could expect that total revenues realized from dial-around calls would decrease. This would result in payphone revenues to fall

21 159 calls time $0.50 per call.

22 56 calls time $0.231 per call.

23 19 calls time $0.50 per call.

and, hence, payphone deployment to fall.[24] Such a result is not consonant with the language or intent of section 276.

In addition, both APCC and the RBOC Coalition acknowledge that competition form wireless services have resulted in a decline in demand for dial-around calls.[25] The normal response that one would expect in a competitive market to the increased use of a substitute good is a decrease in the price of the good in question, here, payphone calls. The result that APCC and the RBOC Coalition propose is counter-intuitive. Because payphones and wireless technology are substitutes, increasing the default rate for dial-around calls could only be expected further to deflate the demand for payphone calls.[26]

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[24] Implicit in APCC's and the RBOC Coalition's pleas is the assumption that the Commission must attempt to maintain at least the current level of payphone deployment. Section 276 contains no such assumption. When it encourages the widespread deployment of payphones, nowhere does the statute state that this objective could not be achieved at a lower level of payphone deployment.

[25] APCC Petition at 8; RBOC Coalition Petition at 1.

[26] *See generally* Nicholson, *supra* at 81-86.

Perhaps recognizing this, APCC seems to posit that wireless service and payphones are complementary goods. *See* APCC Petition at 4-7. This is simply incorrect. If two goods are substitutes, they cannot simultaneously be complements. *See* Nicholson, *supra* at 83-84.

APCC and the RBOC Coalition both ignore fundamental economic precepts in asking the Commission to double the default per-call compensation rate. In so doing, both propose a result that is ultimately self-defeating. The Commission should deny the petitions.

Respectfully submitted,

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Certificate of Service

I hereby certify that, on this 30th day of October, 2002, copies of the foregoing Comments of Global Crossing North America, Inc. were served by first-class mail, postage prepaid, upon:

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